

TEACHERS' RETIREMENT BOARD

INVESTMENT COMMITTEE

SUBJECT: Real Estate – Review of Manager Performance

ITEM NUMBER: 15

ATTACHMENT(S): 1

ACTION: _____

DATE OF MEETING: July 11, 2001

INFORMATION: X

PRESENTER(S): Mike DiRé & Mike Thompson

Executive Summary

At the April 4, 2001 board meeting, the Investment Committee asked the Real Estate Staff to establish a performance rating system for the CalSTRS Real Estate Managers. In response to the request, Staff (with input from PCA, our Real Estate Consultant) has developed a new guideline for evaluating the performance of the Real Estate Managers. A draft of the new evaluation form was included in the June 6, 2001 board meeting material. The Investment Committee tabled discussion of the form until the July meeting. A final version of the form that will be used to evaluate the Managers is attached.

The goals of the new performance rating guidelines follow:

1. To determine if the management firm has achieved their stated investment objectives and to rate them relative to benchmark returns and their peers.
2. To ensure they have adhered to our specific investment process.
3. To assess the impact of any significant firm changes such as staff, client base, structure, or ownership position.
4. To establish a contract review process to be used to assess overall long-term performance. A deterioration of performance will lead to progressive steps of contract review status. (i.e., Watch List, Probation, and Dismissal).
5. To allow Staff to identify any early warning signs of difficulty or “red flags” that may cause a Manager to perform poorly.
6. To provide Staff additional information and insight that will assist in the allocation of capital to those Managers that are effective and successful.
7. To provide Staff additional information and insight that will assist in the restructuring of relationships with Managers that are problematic or unsuccessful.

Evaluation Form

CalSTRS Staff, with input from PCA, has developed the Manager Evaluation Form (Attachment 1) to provide for a consistent, meaningful, and comprehensive method to assess the performance of the Real Estate Managers. The Manager review will be completed annually following the end of our fiscal year and reported to the Investment Committee in October of each year.

The Managers are evaluated in the areas of track record, organization, strategy, and implementation. The rating and review process incorporates both a qualitative and quantitative assessment of each Manager.

The Track Record section is the most important measure of a Manager's performance and is therefore given the most weight toward the overall score. The information recorded will provide both a comparison to benchmarks and a peer rating for firms with similar strategies.

The Organization section is used to assess the impact of any changes within each firm, especially with respect to the CalSTRS portfolio. This area contains information about the firm such as total assets under management, number of employees, percent of CalSTRS assets relative to the total and staff turnover. Small and/or significant changes to an organization over several time periods could be a leading indicator of potential changes to the future performance of the CalSTRS portfolio. For example, if a Manager has staff turnover or the number of properties per asset manager is high, the evaluation form provides a method to record and assess the impact of these factors over a period of time.

The purpose of the Strategy section is to record the approved strategy and to compare it to the strategy actually executed by the Manager that year. The form also provides an opportunity for each Manager to project a one-year going forward return by property and for their overall portfolio. This information is a leading indicator of each Manager's forecast of the market and for their particular investment strategy.

The Implementation section is used to assess the Manager's expertise, execution and general relationship with CalSTRS. This area will document if the firm has adhered to the CalSTRS investment process and their investment guidelines.

Evaluation Process Timetable

An initial draft of the evaluation forms were sent out to the CalSTRS Real Estate Managers for a trial run using actual performance data as of March 31, 2001. We received comments on the form from the Managers, which greatly assisted Staff in finalizing the format for an efficient and effective process.

The first full evaluation will be complete with data as of June 30, 2001, which represents two full years of history for the new real estate program. This evaluation will be due from the Managers on August 31, 2001, reviewed and peer rated by the CalSTRS Staff and then reported to the Investment Committee at the October board meeting. We will continue to report on manager performance on a going forward basis each October.